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SELENA FM S.A.

MANAGEMENT BOARD'S REPORT
ON THE COMPANY'S ACTIVITIES
FOR 2016

Wrocław, 21 March 2017

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1. CHARACTERISTICS OF THE COMPANY'S OPERATIONS

1.1. Key details of the Company

Selena FM S.A. having its registered office at ul. Strzegomska 2-4 in Wrocław is entered in the business register of the National Court Register kept by the District Court for Wrocław-Fabryczna, VI Commercial Division of the National Court Register under KRS no. 0000292032.

The Company was formed through conversion of the limited liability company Selena FM sp. z o.o. into a joint stock company, approved by the Extraordinary General Meeting on 26 September 2007. On 31 October 2007, the new entity was registered in the National Court Register by the District Court for Wrocław-Fabryczna in Wrocław. The Company received statistical number REGON 890226440. Its duration is indefinite (it is a going concern).

On 18 April 2008, the Company debuted on Warsaw Stock Exchange.

Selena FM S.A. has no branches.

1.2. Products and services

The core business of Selena FM S.A. as the parent entity in Selena FM Group is distribution of the Group's products into foreign markets, and provision of advice to its subsidiaries with regard to strategic management, finance management, sales strategy and maintenance of accounting books for customers. The Company is responsible for strategic management of Selena Group, which comprises the entities referred to in section 1.4.

1.3. Distribution markets

Related parties account for more than 94% of the Company's revenues (more than 93% in 2015).

Sales are generated in Poland (PLN 22m to non-connected companies and PLN 100.6m to connected companies) and abroad, mainly in the geographies where the Group-owned companies are located. The Company's tangible assets are located in Poland.

The subsidiaries which contribute more than 10% to total sales of the Company include Selena Vostok OOO (35%) and Selena S.A. (21%).

1.4. Connected companies and equity investments

The stake in share capital and the book value of the individual investments are presented in the table below.

Figures in PLN thousand	31 December 2016			31 December 2015		
	Gross	Write-down	Net	Gross	Write-down	Net
Selena S.A.	62,781	0	62,781	62,781	0	62,781
Selena Labs Sp. z o.o.	1,400	0	1,400	1,400	0	1,400
Tytan EOS Sp. z o.o.	0	0	0	4,007	0	4,007
PMI "IZOLACJA - MATIZOL" S.A.	0	0	0	18,500	648	17,852
Orion Polyurethanes Sp. z o.o.	8	0	8	8	0	8
Carina Sealants Sp. z o.o.	8	0	8	8	0	8
Selena Industrial Technologies Sp.z o.o.	38,379	0	38,379	15,872	0	15,872
Selena Deutschland GmbH	4	0	4	4	0	4
Selena Italia srl	1,884	1,884	0	1,884	1,884	0
Selena Iberia slu	43,478	22,913	20,565	43,478	22,913	20,565
Selena USA Inc.	1,289	1,289	0	1,289	1,289	0
Selena Sulamericana Ltda	3,594	0	3,594	3,594	0	3,594
Selena USA Specialty Inc	2,418	1,118	1,300	2,418	1,118	1,300
Selena Romania SRL	11,944	11,944	0	11,944	11,944	0
Selena Bohemia s.r.o	0	0	0	0	0	0 *
Selena Hungária Kft.	679	679	0	679	679	0
Selena Bulgaria Ltd.	0	0	0	0	0	0 *
Chemistry for Building s.r.o. (formerly Selena Slovakia s.r.o.)	0	0	0	3,340	3,340	0 *
EURO MGA Product SRL	1	0	1	1	0	1
Selena Ukraine Ltd.	0	0	0	0	0	0 *
Selena CA L.L.P.	9,029	0	9,029	9,029	0	9,029
Selena Insulations	1,206	0	1,206	1,206	0	1,206
Weize (Shanghai) Trading Co., Ltd.	0	0	0	0	0	0 *
Selena Nantong Building Materials Co., Ltd.	33,910	33,910	0	33,910	33,910	0
Selena Vostok	11,197	0	11,197	11,197	0	11,197
Selena Malzemeleri Yapi Sanayi Tic. Ltd.	12,793	12,793	0	12,793	12,793	0
Value of shares	236,002	86,530	149,472	239,342	90,518	148,824

* value of shares below PLN 400

** change of shares owner to Selena Industrial Technologies Sp. z o. o. on 20 January 2017 + resolution to rename the company as Taurus Sp. z o.o.

Reduction of the share capital in Selena Malzemeleri Yapi Sanayi Tic. Ltd

On 4 April 2016, the share capital in Selena Malzemeleri Yapi Sanayi Tic. Ltd. was reduced to cover the company's losses from previous years. The value of cancelled equity shares was 10,844 thousand Turkish liras. The transaction did not have any impact on the Group's organisational structure.

Increase in the share capital of Selena Industrial Technologies Sp. z o.o.

As part of another phase of reorganisation of the management structure of the manufacturing plants in Poland, on 9 June 2016, the share capital of Selena Industrial Technologies Sp. z o.o. (SIT) was increased through a non-cash contribution by Selena FM S.A. The non-cash contribution was in the form of shares of Tytan EOS Sp. z o.o. The value of the increased share capital is PLN 14,400k, including 288,000 new shares with a minimum nominal value of 50.00 each. On acquisition of the new shares, Selena FM S.A. holds 100% stake in the registered capital of Selena Industrial Technologies Sp. z o.o., and the nominal value of all the shareholdings of Selena FM S.A. will amount to PLN 355,105k. The valuation of Tytan EOS Sp. z o.o. was made on the basis of an appraisal by an independent advisor. Book value of the shares provided as a non-cash contribution to Selena Industrial Technologies Sp. z o.o. is PLN 4,007k. As a result of the transaction, Selena Industrial Technologies Sp. z o.o. became 100% owner of Tytan EOS Sp. z o.o.

On 18 November 2016, the share capital of Selena Industrial Technologies Sp. z o.o. (SIT) was increased through a non-cash contribution by Selena FM S.A. The non-cash contribution was in the form of shares of "Izolacja-Matizol" S.A. having its registered office in Gorlice. The value of the increased share capital is PLN 47,900k, including 958,000 new shares with a minimum nominal value of 50.00 each. On acquisition of the new shares, Selena FM S.A. holds 100% stake in the registered capital of Selena Industrial Technologies Sp. z o.o., and the nominal value of all the shareholdings of Selena FM S.A. will amount to PLN 403,005k. The valuation of "Izolacja-Matizol" S.A. was made on the basis of an appraisal by an independent advisor. Book value of the shares provided as a non-cash contribution to Selena Industrial Technologies Sp. z o.o. is PLN

18,500k. As a result of the transaction, Selena Industrial Technologies Sp. z o.o. became 100% owner of "Izolacja-Matizol" S.A.

Sale of shares of Chemistry for Building s.r.o.

On 23 December 2016, Selena FM S.A. entered into an agreement to sell 100% shares of Chemistry for Building s.r.o. for PLN 5,000. As a result of the transaction, Selena FM SA lost control over the company and as at the date of disposal ceased to consolidate the results of Chemistry for Building s.r.o. The loss of PLN 20k resulting from the loss of control was presented in other operating costs of the statement of comprehensive income.

Full structure of the Group, including the Company's indirect affiliates, is presented in the consolidated financial statements of Selena FM Group for 2016.

Events occurring after the balance sheet date

Sale of shares in Orion Polyurethanes Sp. z o.o.

On 20 January 2017, Selena FM S.A. entered into an agreement with its connected company (Selena Industrial Technologies Sp. z o.o.) to sell its 100% stake in Orion Polyurethanes Sp. z o.o. The sales price was PLN 5,000. The share disposal did not have any impact on the Group's organisational structure. At the same time, on 20 January 2017, the General Meeting of Orion Polyurethanes Sp. z o.o. adopted a resolution renaming the company as Taurus Sp. z o.o.

1.5. Key developments

The information on loan agreements and investments into related parties are described in other sections of this report. The key developments for Selena FM Group were described in the Management Board's report on the activities of Selena FM Group.

1.6. Achievements in research and development

Selena FM S.A. does not carry out R&D activity directly. R&D is co-ordinated by the subsidiary Selena Labs Sp. z o.o. and the research units in the subsidiaries that carry out production activity (in Spain, Turkey and China, in addition to Poland).

1.7. Description of risks and threats

Selena FM S.A. as a holding entity is not exposed to any specific risks or threats. The risk factors and threats that the Group as a whole is exposed to were described in the Management Board's report on the activities of Selena FM Group for 2016.

1.8. Expected development of the Company

The Company is to continue as a centre responsible for planning and coordinating Selena Group's operations world-wide.

In 2017, Selena FM S.A. is to focus on implementation of its key strategic programmes in the following areas:

- Transforming the Group's Head Office into a unit that will be even more market-focused and providing support to the subsidiaries in this regard.
- Maintaining and strengthening the core business areas.
- Continuing the improvement of operational effectiveness of the trading and production companies.
- Developing business initiatives in Western Europe and in Americas.
- Developing new product groups, including COOL-R.
- Increasing the competitiveness of products.

- Securing cash conversion and financing for the Group.

1.9. Investment plans

The Company's investments in 2017 are mainly connected with financing and capital support for its subsidiaries. The level of investment depends on the current and expected performance of the subsidiaries and their capex plans. The Company also remains willing to consider acquisitions should an attractive opportunity arise. The Group's investment plans are presented in Note 1.12 of the Management Board's report on the Group's activity for 2016.

2. FINANCIAL POSITION

2.1. The Company's revenue and earnings

	Figures in PLN thousand	2016	2015	Change	Change %
Revenue from sales		430,062	352,359	77,703	22%
Cost of sales		374,455	311,397	63,058	20%
Gross profit on sales		55,607	40,962	14,645	36%
Selling and marketing costs		27,212	21,373	5,839	27%
General and administrative expenses		22,000	17,553	4,447	25%
Other operating profit (loss)		-10,647	-27,566	16,919	-
EBITDA – operating profit + depreciation / amortisation		-2,702	-23,321	20,619	-
Operating profit (loss) (EBIT)		-4,252	-25,530	21,278	-
Net financial income (loss)		13,114	69,200	-56,086	-
Profit (loss) before tax		8,862	43,670	-34,808	-
Profit (loss) after tax		7,127	43,498	-36,371	-
Total comprehensive income		7,127	43,498	-36,371	-

EBITDA – operating profit + depreciation/amortisation

	Change in p.p.		
Gross profit margin	12.9%	11.6%	1.3
Selling costs / revenue from sales	6.3%	6.1%	0.2
General and administrative expenses / revenue from sales	5.1%	5.0%	0.1
EBITDA margin %	-0.6%	-6.6%	6.0
Operating profit margin (EBIT%)	-1.0%	-7.2%	6.2
Net profit margin	1.7%	12.3%	-10.7

EBIT % – operating profit / sales

EBITDA % - EBITDA / sales

Until the end of 2015, Selena FM S.A acted as a central distributor of the products manufactured by the Polish production plants owned by Selena Group for its foreign affiliates. Since January 2016, the company has been a multi-distributor and distributor of the products of Orion PU Sp. z o.o., Libra Sp. z o.o. and Carina Silicones Sp. z o.o. also for Selena S.A., which distributes products in Poland. The new business model was reflected in the new ERP - Microsoft Dynamics AX system that was implemented in December 2015 in Selena FM S.A., Selena S.A. and the above-mentioned production companies. The change had an impact of PLN 77.6m on the sales of goods reported in the unconsolidated financial statements of Selena FM S.A. for the period of 12 months ended 31 September 2016, while the positive impact on the gross margin was PLN 6.3m.

In 2016, gross profit increased by PLN 14.6m compared with the previous year, while gross profit margin increased by 1.3 pp. The higher gross profit margin achieved by Selena FM S.A. is an aggregate effect of marketing of new, high-margin products and lower raw material costs for most product groups in the first three quarters.

In 2016, selling costs were PLN 27.2m and grew in line with the increase in sales (vs. 2015). The ratio of selling costs to sales was similar to the previous year. At the same time, selling costs were affected by the activities related to implementation of innovative products in the markets where Selena is present.

In 2016, general and administrative expenses were PLN 22.0m, which is PLN 4.4m higher than last year, partly reflecting the increase in sales. One of the key drivers of this line item was the increase in staff costs resulting from additional work on stabilisation of the ERP system and bringing the company's organisational structure to the target level.

In 2016, Selena FM generated a loss on other operations of -PLN 10.6m. The Management Board analysed the potential to recover the assets invested in subsidiaries. On this basis, appropriate impairment charges were posted for receivables. The loss was primarily affected by impairment charges posted on trade receivables (PLN 18.6m in total), including: Selena Iberia sl- PLN 6.7m, EURO MGA Products SRL – PLN 3.0m, Selena Romania SRL – PLN 2.8m, Selena Malzemeleri Yapi Sanayi – PLN 1.8m, Selena Italia srl – PLN 2.4m, other connected entities – PLN 1.0m, other non-connected entities – PLN 0.9m.

The result on financial activity was PLN 13.1m. Key items of financial revenues included: dividends and shares in profits of PLN 17.8m; interest on loans and bonds of PLN 8.1m; proceeds from cancellation of shares of a subsidiary (Selena Industrial Technologies Sp. z o.o.) – PLN 5.2m and FX gains of PLN 5.0m.

The result on financial activity was reduced by financial expenses of PLN 23.8m, including loan interest of PLN 4.6m, impairment write-down on shares of PLN 17.6m and a loss on exercise of derivative instruments of PLN 1.3m. The impairment charges on the value of loans granted did not have any impact on the Group's consolidated result for 2016.

2.2. The Company's key balance sheet figures

Figures in PLN thousand	31 December 2016	31 December 2015	Change	Change %
Shares in subsidiaries	149,472	148,824	648	0%
Loans granted, bonds repurchased, valuation of derivatives	185,884	167,920	17,964	11%
Trade receivables	156,581	133,399	23,182	17%
Cash	6,275	4,815	1,460	30%
Other assets	29,437	39,590	-10,153	-26%
Total assets	527,649	494,548	33,101	7%
Equity	273,977	273,700	277	0%
Bank and other loans	117,878	137,445	-19,567	-14%
Trade liabilities	129,754	78,490	51,264	65%
Other liabilities	6,040	4,913	1,127	23%
Total equity and liabilities	527,649	494,548	33,101	7%
Debt ratio*	48%	45%		

* Total liabilities/ Total equity and liabilities

The balance sheet total at the end of 2016 was PLN 527.6m, up by PLN 33m on the balance sheet total posted at the end of 2015. The increase was primarily caused by the higher value of trade receivables and liabilities arising from the changed distribution model in the Group in 2016.

2.3. Cash flows of the Company

Figures in PLN thousand	2016	2015	Change
Net cash flows from operating activities	39,805	-26,893	66,698
Net cash flows from investing activities	-5,950	-32,301	26,351
Net cash flows from financing activities	-32,441	59,959	-92,400
Change in cash and cash equivalents:	1,414	765	649

Cash inflows from operating activities were PLN 39.8m, up PLN 66.7m vs. 2015.

The cash flows from investing activities of -PLN 5.9m were connected with the provision of loans of PLN 25.2m (net) to subsidiaries and as well as the spend on the investment into ERP. At the same time, the Company received remuneration of

PLN 5.2m for the cancelled shares in its subsidiary Selena Industrial Technologies Sp. z o.o. and dividends from subsidiaries in the amount of PLN 16.8m.

The inflows of cash from financing activities of PLN 32.4m result from an excess of the bank debt paid (PLN 43.8m) over the bank debt incurred during the period (PLN 23.9m). The Company repaid financial leases of PLN 0.8m, paid interest of PLN 4.8m and distributed PLN 6.9m in dividends.

2.4. Loans received

Ref	Loan type	Maturity date	31 December 2016		31 December 2015	
			Long-term portion	Short-term portion	Long-term portion	Short-term portion
1	Working capital loan	07/2018	35,686	0	0	53,606
2	Working capital loan	07/2018	1,042	0	0	12,312
3	Working capital loan	01/2017	0	3,030	0	0
4	Working capital loan	02/2018	51,752	0	58,728	0
5	Working capital loan	09/2019	19,805	0	0	0
6	Non-bank loan	12/2016	0	0	0	6,220
7	Non-bank loan	12/2018	2,588	0	2,450	0
8	Non-bank loan	12/2019	1,500	0	1,500	130
9	Non-bank loan	12/2019	1,725	0	1,705	45
10	Non-bank loan	12/2019	750	0	749	0
Total loans			114,848	3,030	65,132	72,313

Details of the lending terms are presented in Note 28 of the Company's financial statements for 2016.

As part of the loan agreements signed by the Parent Company separately or jointly with its subsidiaries, Selena FM undertook to maintain certain financial ratios at the levels agreed with banks. In 2016, Selena Group maintained consolidated financial ratios at the levels required by the lenders.

2.5. Loans granted and bonds purchased

To ensure funding for its subsidiaries, the Company purchases their bonds and provides them with loans.

The table below presents a summary of changes to the financing extended to other companies in 2016.

Type of connection	Figures in PLN thousand	31 December 2015	Principal		Interest		Other decreases	Valuation	Write-down	31 December 2016
			Increase	Decrease	Accrued	Paid				
Loans										
Subsidiaries	Gross value	155,617	32,181	-1,132	3,981	-810	-158	5,862	0	195,541
	Impairment charge	-48,600	-17,593	136	0	0	0	-4,077	0	-70,134
	Net value	107,017	32,181	-1,132	3,981	-810	-158	5,862	-21,535	125,407
Other connected entities	Bonds	60,753	0	-350	4,045	-4,052	0	0	0	60,396
Non-connected	Loans	0	70	0	1	0	0	0	0	71
	Valuation of derivatives	150	0	0	0	0	0	-140	0	10

entities

TOTAL	167,920	32,251	-1,482	8,027	-4,862	-158	5,722	-21,535	185,884
<i>including long-term:</i>	<i>158,128</i>								<i>119,858</i>

Details of the financing provided to subsidiaries were presented in detail in Note 19 of the Company's financial statements for 2016.

On 24 June 2015, the Management Board of Selena FM S.A. accepted the proposal from AD Niva Sp. z o.o to take up bonds with a maximum value of PLN 60m. The bonds' nominal value corresponded to their issue price. The interest rate on the bonds is 6.7% p.a. The bonds will be redeemed at the nominal value by 31 December 2017. Selena FM S.A. acquired PLN 60m worth of bonds.

AD Niva Sp. z o.o. has 50.5% votes at the General Meeting of Selena FM S.A. Krzysztof Domarecki, Chairman of Supervisory Board of Selena FM S.A., is the sole shareholder of Sirius Investments S.a.r.l., which is the sole shareholder of AD Niva Sp. z o.o.

2.6. Guarantees and off-balance sheet items

The guarantees the Company extended to other entities, including its subsidiaries are presented in Note 29 of the Company's financial statements for 2016.

The Company does not grant guarantees for the obligations of non-connected entities.

2.7. Financial instruments and financial risk management principles

The Company's financial instruments are presented in detail in Note 36 of the Company's financial statements for 2016.

The Company's risk financial risk management principles (covering FX risk, interest rate risk, credit risk and liquidity risk) are presented in detail in Note 35 of the Company's financial statements for 2016.

2.8. Assessment of financial resources management

The Company meets its financial obligations in a timely manner and has no liquidity problems. In the Management Board's opinion, there are no risks to the Company's capacity to service its obligations in a timely manner.

3. OTHER INFORMATION

3.1. Material agreements

The agreements concluded in 2016 and deemed material for the Company's financial position, include bank loan agreements (Note 2.4), agreements connected with the financing for subsidiaries (Note 2.5), guarantee agreements with subsidiaries (Note 2.6) and agreements relating to shares held (Note 1.4).

The Group's material agreements were described in detail in the consolidated report on the Group's activities for 2016 (Note 3.1).

3.2. Related party transactions

In 2016, the Company and its subsidiaries entered into business-as-usual transactions. The terms of the transactions were market-based and resulted from the current activities. These transactions, and the transactions concluded with the Company's Directors, are presented in detail in Notes 32 and 33 of the Company's financial statements for 2016.

3.3. Issue of securities

In 2016, the Company did not issue any securities.

3.4. Acquisition of own shares

The Company did not have any treasury shares either as at 31 December 2016 or at the date of publication of this report. The list of the Company's shares held by the executive and non-executive directors of the Parent are presented in Note 3.11 of this report.

3.5. Delivery of forecasts

The Company did not publish its stand-alone forecasts for 2016.

3.6. Litigations

The Company is not involved in any court, arbitration or administration proceedings whose value would be at least 10% of the Group's equity.

3.7. Unusual events and factors

Unusual events and factors affecting the Company's business are described in Notes 2.1-2.3. Unusual events and factors affecting the Group were described in the Management Board's report on the group's activities for 2016.

3.8. Changes to the governance principles

In 2016, no major changes were made to the rules of managing the Group.

3.9. Agreements with directors

Neither the Parent Company nor the subsidiaries entered into any material agreements with members of the Company's executive or non-executive directors whose effects would not be disclosed in the financial statements of the Parent Company or the Group.

3.10. Remuneration of the Management Board and the Supervisory Board

The remuneration of the Management and the Supervisory Board members of the Company is described in Note 33 of the Company's financial statements for 2016.

3.11. Shareholdings by executive and non-executive directors

The table below shows a summary of the shareholdings in the Company by executive and non-executive directors as at the date of publication of this report.

Name	Role	Number of shares held	Nominal value of shares (PLN)
AD Niva Sp. z o.o. *	-	9,538,000	476,900
Syrius Investments s.a.r.l.**	-	8,050,000	402,500
Marcin Macewicz	Management Board member	600	30

* entity controlled by Krzysztof Domarecki, Supervisory Board Chairman, through Syrius Investment s.a.r.l.

** entity controlled by Krzysztof Domarecki, Supervisory Board Chairman

Krzysztof Domarecki also holds 0.35% stake in Selena Labs Sp. z o.o.

3.12. Agreements affecting changes in the proportion of shareholdings

The Company is not aware of any agreements that in the future might affect the proportion of shareholdings of the existing shareholders.

3.13. Control of Employee Share Programmes

In 2016, no employee shares programmes were in place in the company.

3.14. Information on the audit of the financial statements

On 25 May 2016, the Supervisory Board of Selena FM S.A. resolved to appoint Deloitte Polska Sp. z o.o. as the auditor responsible for review of the interim financial statements and audit of the annual financial statements of the Parent Company, and the Group's consolidated financial statements for 2016 and 2017. The audit agreement was concluded on 6 July 2016.

4. CORPORATE GOVERNANCE PRINCIPLES

4.1. Corporate governance principles in use

In 2016, Selena FM S.A. adopted and agreed to comply with the Code of Best Practice for the WSE Listed Companies for 2016, introduced by the Resolution of the Warsaw Stock Exchange Council of 13 October, with the exceptions described at point 4.2. Full text of the principles is published at:

https://static.gpw.pl/pub/files/PDF/inne/GPW_1015_17_DOBRE_PRAKTYKI_v2.pdf

At the same time, the Company tries to apply in practice European Commission Recommendation No 2015/208 of 9 April 2014 on the quality of corporate governance reporting ("comply or explain" approach).

4.2. Exceptions to the Corporate Governance Principles

The Company's Management Board hereby declares that in 2016 the Company complied with the corporate governance principles presented in the Code of Best Practice for the WSE Listed Companies, except:

- 1) Principle I.Z.1.11. The Company did not develop the rules for changing the auditor of its financial statements. The decision on whether or not to continue cooperation with the auditor is taken on a case-by-case basis.
- 2) Principle I.Z.1.15. The Company did not develop and does not apply the policy of diversity with regard to the Company's governing bodies and key management. The Company does not ensure a balanced participation of women and men on the Management Board and the Supervisory Board. The roles of executive and non-executive directors were allocated to selected individuals on the basis of their expertise and experience rather than their gender, education or age.
- 3) Principle I.Z.1.16. The Company does not publish information about planned broadcasts of General Meetings as no broadcasts are envisaged.

- 4) Principle I.Z.1.20. The Company does not publish any audio or video record of the General Meeting. The Company does not keep a detailed record of the course of General Meetings – such information can be derived from the notarial deed of the General Meeting, but the deed does not contain all the statements made, questions asked and answers given at the General Meeting. Individual matters are put on the General Meeting agenda by the Chairman of the General Meeting taking account of the applicable law, importance of the matter and reasonable demands of the shareholders. As stipulated by the Commercial Companies Code, the participants of the General Meeting have the right to make written statements that are attached to the minutes. The Management Board of the Company believes that such rules ensure transparency of the General Meeting and protect the Company against potential claims of the shareholders who might not wish to have their image or statements published.
- 5) Principle IV.Z.2. The Company does not provide real-time broadcasts of its General Meetings as their participants do not agree to their images being made public.
- 6) Principle IV.Z.3. The Company allows the the shareholders participating in the General Meeting to decide on whether or not to make the meeting available to media representatives.
- 7) Principle VI.Z.4. The Company does not use this rule. Remuneration of Management Board members is determined by the Supervisory Board, using fair judgement. The Supervisory Board determines remuneration of the key management personnel taking into account market standards and the Company's needs. In its annual report the Company publishes information about the emoluments of Management Board members, as required by the relevant legal provisions set out in the Regulation of the Minister for Finance on current and financial information (...).

At the same time, the Management Board declares that in 2017 the Company adopted and agreed to comply with the Code of Best Practice for the WSE Listed Companies for 2016, introduced by the Resolution of the Warsaw Stock Exchange Council, except for those described in the EBI report no. 1/2017 of 09.03.2017.

4.3. Internal control over financial reporting

The Company's Management Board is responsible for effective functioning of the system of internal control over financial reporting.

To ensure reliability of its financial accounts, the Company has implemented and has been actively upgrading its internal control and risk management system. The system covers, among others, the following areas:

- Controlling and management accounting
- Accounting, including financial reporting and consolidation
- Forecasting and financial analyses
- Internal audit.

As part of the internal control and risk management system there are organisational solutions and corporate standards/procedures in place that ensure effectiveness of the control over financial reporting and identification / elimination of risks in this area. The following measures should be noted:

- Harmonisation of the accounting policies, financial reporting and accounting procedures
- Application of a standardised financial reporting model for external and internal purposes
- Clear division of roles and responsibilities of the financial functions and the middle and upper management
- Regular and formalised process of reviewing and updating the budget assumptions and financial projections
- Having the financial accounts reviewed and audited by an independent auditor
- Implementation of a common IT platform SAP BI for the all the Group companies
- Conduct of internal review of correctness of financial information prepared by the Group members.

The Finance Director (Vice-President of the Management Board) has oversight over preparation of the financial statements and financial reports of the Company. Preparation of the annual and interim financial statements is the responsibility of the Company's finance function. The Company keeps abreast of the legal developments relating to the stock exchange reporting and makes sure it is prepared for their implementation well in advance.

Each month, upon closing on the books of account, a management report is put together with details on the key financials and ratios for particular business segments. The Management Board and unit managers analyse and discuss the Company's and subsidiaries' performance.

Each quarter, the Company's Management Board verifies the reliability and currency of the annual budgets and internal short-term projections. Where appropriate, the Management Board liaises with the management of the Group companies to review and update the previous budget assumptions.

As required by law, the Company has its financial accounts audited (reviewed) by an independent auditor. The auditor is selected by the Supervisory Board from among the recognised audit firms which ensure high standards of service and professional independence.

The auditor presents the audit (review) results to the Company's Supervisory Board and the Management Board, and then in the auditor's opinion and report. The audit of financial statements also includes verification of the Company's internal control system. The findings, observations and recommendations for improvement of the internal control system stemming from the audit of financial statements are presented to the Company in the form of a Management Letter.

4.4. Significant shareholders

According to the Company's knowledge, as at the date of publication of this report, the following shareholders hold the shares which carry at least 5% votes at the General Meeting:

Shareholder	Share types	Number of shares acquired	Share in registered capital	Number of votes	Share in votes at the AGM
AD Niva Sp. z o.o. *	Registered preference shares	4,000,000	17.52%	8,000,000	29.81%
	Bearer shares	5,538,000	24.25%	5,538,000	20.64%
Syrius Investments S.a.r.l.*	Bearer shares	8,050,000	35.25%	8,050,000	30.00%
Quercus Towarzystwo Funduszy Inwestycyjnych S.A. **	Bearer shares	1,367,141	5.99%	1,367,141	5.09%

* entity controlled by Krzysztof Domarecki, Supervisory Board Chairman

**As at 7 July 2016

4.5. Holders of shares with special control rights

No securities exist which would carry any special control rights in the Company.

4.6. Limitations on voting rights

There are no limitations on the exercise of votes from the Company's shares.

4.7. Limitations on transfer of title to the Company's shares

There are no limitations on the transfer of title to the Company's shares.

4.8. Appointment and powers of the Management Board

The Company's Management Board may consist of one to seven members appointed for a joint 3-year term of office. The number of the Management Board members is determined by the Supervisory Board. The Management Board members, including the Management Board President, are appointed and removed by the Supervisory Board.

The Management Board led by the Management Board President manages the Company and represents it outside. The authority to represent and bind the Company is vested in two Management Board members acting together or one Management Board member acting jointly with a proxy.

The Company is represented by the Supervisory Board in any contracts between the Company and the Management Board members or in any disputes between the Company and the Management Board members.

Management Board resolutions are adopted by absolute majority of votes of the Management Board members present at the meeting.

The Management Board acts pursuant to the Terms of Reference approved by the Management Board.

Each Management Board member may manage the Company's affairs independently in relation to the ordinary course of the Company's business. Any matters that go beyond the ordinary course of the Company's businesses require a resolution of the Management Board. Also, the Management Board shall adopt resolutions at the request of any single Management Board member. The Management Board shall adopt resolutions on the following matters in particular:

- 1) reports, motions and other matters submitted to the Supervisory Board and the General Meeting
- 2) granting the power of proxy (prokura)
- 3) convening annual and extraordinary General Meetings of Shareholders on its initiative or at a written request of the Supervisory Board or other competent bodies acting in accordance with the applicable laws or the Statutes, and defining the agenda of the General Meeting.

The right to take a decision on the issue or redemption of the Company's shares is regulated by the Commercial Companies Code.

4.9. Amending the Statutes

Any changes to the Company's Statutes (Articles of Association) require a resolution of the General Meeting adopted by an absolute majority of votes in accordance with Article 415 §. Article 3 and Article 416 §1 of the Commercial Companies Code.

On 14 June 2016, the Statutes were amended as follows:

Section 1§(9) was amended to read as follows:

The Management Board shall consist of 1 (one) to 7 (seven) persons, including the Management Board President, and – in the case the Management Board consists of at least 2 persons – one or two Vice-Presidents, appointed and removed by the Supervisory Board.

Section 1§(12) was amended to read as follows:

"The Supervisory Board shall consist of 5 (five) to 9 (nine) members appointed for a joint term of office of 3 (three) years. The number of the Supervisory Board members is defined by the General Meeting."

4.10. General Meeting and the rights of shareholders

The General Meeting operates pursuant to the Company's Statutes and the Terms of Reference of the General Meeting, which are available to the public. The General Meeting is convened in the Company's registered office or in Warsaw at the date specified in the Company's current reports and on its website. In addition to the shareholders, the General Meeting may be attended by the members of the Management Board and the Supervisory Board, and: directors, officers and other employees of the Company or its subsidiaries invited by the Company's Management Board – when the General Meeting considers an item of the agenda falling within the scope of responsibility of such persons, as well as the experts invited by the authority which convened the General Meeting - when the General Meeting considers an item of the agenda subject to assessment by experts, or – where approved by the Shareholders representing the ordinary majority of votes – when the General Meeting considers other items of the agenda: representatives of the media, other persons – where approved by Shareholders – when the General Meeting considers particular items of the agenda or during the entire General Meeting.

The Terms of Reference of the General Meeting lay down the rules of election of the General Meeting Chairman, the role of the Chairman and the rules of election and the duties of the Ballot Commission. Open ballot is used at General Meetings. Secret ballot is ordered for: appointment or removal of members of the Company's governing bodies; motions to bring a

member of the Company's governing bodies to liability; in personal matters and at the request of at least one authorised voter.

Shareholder rights

1. Shareholders representing at least a half of the share capital or at least a half of the total voting power may convene an Extraordinary General Meeting.
2. The Shareholder(s) representing at least 1/20 of the share capital shall have the right to convene the General Meeting if the General Meeting was not convened at their prior request and the registry court authorised them to convene the same. The court shall appoint the Chairman of the General Meeting so convened.
3. The Shareholder(s) representing at least 1/20 of the share capital may demand that certain items be included in the agenda of the next General Meeting and propose draft resolutions.
4. A Shareholder has the right to receive a certified copy of the Management Board's report on the Company's operations, the financial statements and the auditor's opinion as well as certified copies of the documents indicated in §15 section 2 point a) and point p) of the Company's Statutes. The documents shall be provided to the shareholders on request, no later than 15 days before the General Meeting.
5. The Shareholder shall have the right to demand receipt of certified copies of the proposals on any matters included in the agenda within a week before the General Meeting.
6. The Shareholder has the rights to demand that the list of registered General Meeting participants be forwarded to the indicated e-mail address.
7. The following persons shall have the right to participate in and exercise voting rights at the General Meeting:
 - 1) Shareholders holding registered shares, provided that their names are recorded in the book of shares at least a week before the date of the General Meeting
 - 2) Shareholders who 16 days before the General Meeting date (record date) held on their securities account dematerialised shares in Selena FM S.A.
 - 3) Proxies of the persons specified in point 2) and 3) above.
8. The basic rights and obligations of the persons authorised to vote (Shareholders or their proxies) include:
 - 1) exercising their right of vote in an unrestricted way
 - 2) making formal proposals
 - 3) demanding that a secret vote be held
 - 4) demanding that their objections be recorded in the minutes
 - 5) demanding that their written statements be recorded in the minutes
 - 6) asking questions and demanding explanations from the Management / Supervisory Board members, auditors and experts present at the General Meeting on matters connected with the agenda
 - 7) ensuring compliance with the agenda, applicable laws, Statutes, the Terms of Reference of the General Meeting and the best practice in public companies that the Company has bound itself to observe.
9. At the request of the Shareholders representing at least a fifth of the Company's share capital, the Supervisory Board shall be elected by the next General Meeting through a vote by separate groups.

If the Supervisory Board is to be elected through a vote by groups:

 - 1) it is up to the Shareholders to create such groups
 - 2) a Shareholder may belong to one group only
 - 3) the minimum number of shares required to create a separate group is the product of the number of shares represented at the General Meeting and the number of Supervisory Board members to be elected
 - 4) creation of a separate group is reported by the Shareholders to the General Meeting Chairman
 - 5) each separate group chooses their leader who shall hold the election
 - 6) the leader of each group shall prepare and sign the attendance list for the group and then shall proposed candidates for the Supervisory Board members and presents to the General Meeting Chairman the results of the election in his group
 - 7) the General Meeting Chairman shall announce the results of the elections in particular groups and shall determine the number of the Supervisory Board members yet to be elected
 - 8) the Shareholders who did not participate in any of the groups shall elect the remaining Supervisory Board members.
10. Shareholders shall have all the other rights conferred upon them by the Commercial Companies Code.

4.11. Membership of the Management Board and the Supervisory Board

Management Board of the Company

As at 31 December 2015, the Company's Management Board was composed of:

- Jarosław Michniuk – Management Board President
- Krzysztof Kluza – Vice-President of the Management Board
- Andrzej Feruga – Management Board Member
- Marcin Macewicz – Management Board Member.

Changes in the Management Board in 2016:

- On 28 July 2016, Krzysztof Kluza resigned as Vice-President of the Management Board responsible for Finance.
- On 29 August 2016, the Supervisory Board removed Jarosław Michniuk from his post of Management Board President.
- On 2 September 2016, the Company's Supervisory Board adopted a resolution appointing, as of 5 September 2016, Mr. Jean-Noël Fourel as the President of the Management Board of the Parent Company.
- On 26 September 2016, the Company's Supervisory Board adopted a resolution appointing, as of 4 October 2016 Mr. Hubert Rozpędek as the Vice President of the Management Board responsible for finance.
- On 16 December 2016, the Supervisory Board adopted a resolution removing Mr Andrzej Feruga from his post of Management Board Member.

As at 31 December 2016, the Parent Company's Management Board was composed of:

- Jean-Noël Fourel – Management Board President
- Hubert Rozpędek – Vice-President of the Management Board responsible for Finance
- Marcin Macewicz – Management Board Member.

On 30 January 2017, the Supervisory Board of Selena FM SA appointed Mr Marcin Macewicz as Vice-President for Sales and Marketing.

As of 1 March 2017, the Supervisory Board of Selena FM SA appointed Ms Agata Gładysz to the position of Management Board Member.

By the date of publication of this report, no other changes took place in the Management Board's composition.

Company's Supervisory Board

As at 31 December 2015, the Company's Supervisory Board was composed of:

- Krzysztof Domarecki – Supervisory Board Chairman
- Borysław Czyżak – Supervisory Board Member
- Stanisław Knaflewski – Supervisory Board Member
- Andrzej Krämer – Supervisory Board Member
- Sylwia Sysko-Romańczuk – Supervisory Board Member.

Changes in the Supervisory Board composition in 2016:

- On 14 June 2016, the Annual General Meeting of Shareholders appointed Mr. Hans Kongsted and Mr. Francisco Azcona to the Supervisory Board.

As at 31 December 2016, the Company's Supervisory Board was composed of:

- Krzysztof Domarecki – Supervisory Board Chairman
- Borysław Czyżak – Supervisory Board Member

- Stanisław Knaflewski – Supervisory Board Member
- Andrzej Krämer – Supervisory Board Member
- Sylwia Sysko-Romańczuk – Supervisory Board Member
- Hans Kongsted – Supervisory Board Member
- Francisco Azcona – Supervisory Board Member.

By the date of publication of this report, no changes took place in the Supervisory Board's composition.

MANAGEMENT BOARD'S ASSURANCE STATEMENT ON RELIABILITY OF THE FINANCIAL REPORT

The Management Board of Selena FM S.A. hereby confirms that to the best of its knowledge the financial statements for 2016 and the comparable data have been prepared in accordance with the applicable accounting policies and give a true, fair and clear picture of the affairs of Selena FM S.A. and its financial performance and that the Management Board's report on activities gives a true picture of the Group's development, achievements and standing, including description of the key risks and threats.

THE MANAGEMENT BOARD'S STATEMENT ON SELECTION OF AUDITOR

The Management Board of Selena FM S.A. hereby declares that the auditor of the annual financial statements of the Company for 2016 was selected in accordance with the law and that the audit firm and its auditors fulfilled the necessary criteria to be able to issue an unbiased and independent opinion of the financial statements in accordance with the applicable laws and professional standards.

Management Board President

.....
Jean-Noël Fourel

**Vice-President of the Management
Board
for Finance**

.....
Hubert Rozpędek

**Vice-President of the Management
Board
for Sales and Marketing**

.....
Marcin Macewicz

Management Board Member

.....
Agata Gładysz